Philippine inflation falls in June

The headline inflation rate moderated to 3.7% YoY down from 3.9% ahead of big rice price reductions expected following recent tariff cuts

Bags of rice at a market in Manila, Philippines

3.7% CPI inflation

YoY%

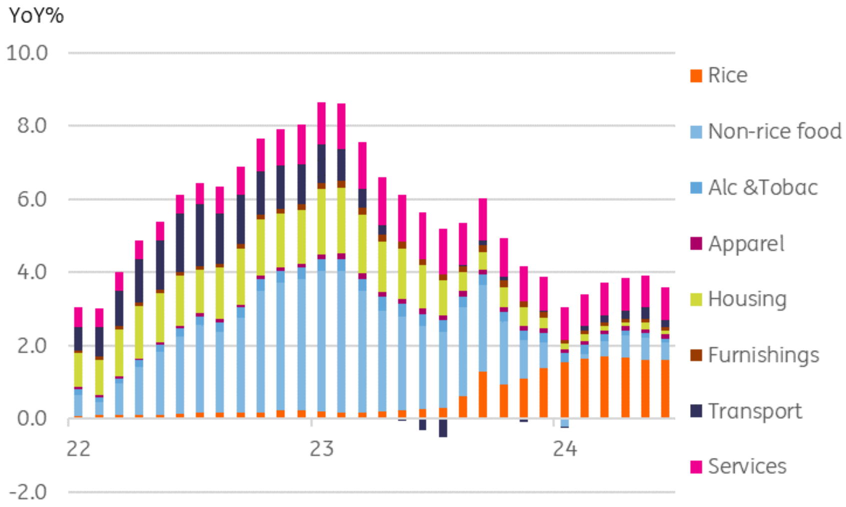
Lower than expected

June inflation falls more than expected

June inflation came in below our and the consensus expectation, falling to just 3.7% YoY, down from 3.9% in May. Looking through the subcomponents, there is nothing that stands out particularly. The June decline is the product of some small declines in the contribution to overall inflation from a number of sectors, including housing and transport, though there were some offsetting gains elsewhere.

Rice prices and the broader food and beverage sector continue to dominate overall inflation, but the peak looked as if it has already been hit, and from next month, rice tariff reductions will start taking inflation even lower.

Contributions to YoY inflation (percentage points)



Rice tariff reductions to dominate near-term outlook for inflation

Rice tariff reductions from 35% to 15% will dominate the outlook for inflation in the coming months. The tariff reduction is effective as of today (5 July) and the coming month should see consumer prices for rice coming down. The reduction in tariffs will also likely help mobilise existing rice stocks and should benefit producers and exporters in Vietnam, where much of the rice imported into the Philippines comes from.

We expect that the pass-through to consumer prices will take more than one month, and is unlikely to be fully transmitted. Nonetheless, we could well see inflation drop to the low 1 percent level in the coming months, before slowly rising back towards the underlying core inflation rate of around 3% in early 2025.

Support for BSP doves

Today's inflation decline, and the anticipated declines in the months ahead will make it easier for the BSP doves, including Governor, Eli Remolona, to argue for rate cuts. Remolona has been hinting at an August cut for some time, though the weakness of the PHP has been a major constraining factor, as have circulating doubts about the timing of the Fed's first rate cut.

The PHP opened stronger this morning, helped by this inflation data, and will be a key factor to watch when gauging whether or not BSP has the ability to ease rates ahead of the Fed without this spurring unwanted PHP depreciation. This will certainly be easier to achieve if it comes against a backdrop of solid growth yet moderating inflation. For now, we are assuming that this is achieved, and are pencilling in a 25bp cut in 3Q24.

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